



**U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT**
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CURRENT HOUSING MARKET CONDITIONS

FORT COLLINS – LOVELAND, COLORADO METROPOLITAN STATISTICAL AREA (MSA) As of January 1, 2004

INTRODUCTION

This report has been prepared to assist the U.S. Department of Housing and Urban Development (HUD) in its underwriting operations. The report is an update of our Rental Market Outlook dated April 2003. It has also been provided to officials of state and local government, developers, lenders and others interested in the outlook for the local rental market. The estimates, opinions and forecasts in this report are solely those of the Economists in the Office of Policy Development and Research in the Rocky Mountain Office and do not represent HUD Departmental or Rocky Mountain Office policy. The report is provided for informational purposes only. It does not purport to make determinations with respect to any particular application for mortgage insurance, subsidy funds, grants or other financing, which may be under consideration in this market area.

The market area covered by this analysis consists of the Fort Collins-Loveland Metropolitan Statistical Area (MSA), which is defined as Larimer County, Colorado. Unless otherwise noted, the estimates and discussion of market conditions are as of January 1, 2004. Questions or comments regarding the findings and conclusions of this report may be addressed to W. Victor Crain, Field Economist, Denver Regional Office, at (303) 672-5289 and at W._Victor_Crain@hud.gov.

SUMMARY

The economy of the MSA has stabilized and shown signs of a slight recovery during the past year. Employment growth in 2003 was slightly ahead of the growth rates of 2002 and 2001. Year-end unemployment averages for 2003 and 2002 were comparable. The anticipated return to sustained employment growth in 2004 and 2005 will result in an increase in the MSA's population and households.

Home sales have remained stable through 2003 as a result of low mortgage interest rates and the numerous down payment assistance programs. The median price of homes sold increased slightly in all market areas. We expect that home sales in 2004 will keep pace with the sales trends established in 2003.

The soft rental market has shown signs of improvement over the past year but there still remains a surplus of vacant rental units. Our estimates indicate that the rental market should recover sometime in early-2006. Therefore, we suggest that the start of new market rate units be postponed until early-2005. The current market for nonelderly Low Income Tax Credit (LIHTC) units is soft and extremely high capture rates would be required to absorb any new units, especially at the 60 percent of median income level. Additional nonelderly LIHTC units at any income level should be approached with caution. However, there may be some opportunity for units at the 40 and 50 percent of median income levels in the Fort Collins market. In addition, there is some potential for development of a modest-sized elderly project at the 40 and 50 percent of median income levels.

ECONOMY

The economy of the MSA has slowed dramatically since the 1990s. Cutbacks in manufacturing, construction and service related industries prompted the rise in unemployment in 2002, which led to a record number of residential and commercial foreclosure recordings. The Larimer County Public Trustee reported 625 foreclosure recordings in 2003, up about 36 percent over the 2002 recordings of 458 and more than double the 2000 recordings of 306.

Stimulated by growth in the service and retail sales industries, employment grew by a modest 2.4 percent in 2003. The gain in total employment in this year is slightly better than the yearly average employment gains of 1.9 and 2.1 percent made in 2002 and 2001 but down significantly from the 4.6 percent gain posted in 2000. In 2003, the average unemployment rate of 5.2 percent was the same as that in 2002. Modest employment growth of 2.0 to 3.0 percent per year is forecast for the next two years. The projected annual job gains will not equal the pace or pay scale of 2000 or the 1990s. The high tech industry will still play an important role in the economy, but to a lesser degree than in the last decade. Colorado State University and service related industries continue to have the largest impact on the Fort Collins economy. Retail trade is the main stay of the Loveland economy as is tourism for the Estes Park economy.

POPULATION AND HOUSEHOLDS

Strong in-migration, stimulated by sustained employment growth, propped up the population growth rate throughout the late-1990s and early-2000s. The slowdown in employment over the past two years has caused the population growth rate to ease substantially. The Colorado State Demographer estimated the July 1, 2002 population to be 262,711, up a modest 1.1 percent from the previous year and well below the 2.6 percent gain in 2001. We have estimated the current population at 266,200, up a slight 1.3 percent (an annual rate of 0.9 percent) from the State Demographer's July 1, 2002 estimate. With the anticipated job growth during 2004 and 2005, the population should grow by an estimated 2.0 percent in 2004 and by about 2.7 percent in 2005. The projected population by the end of 2005 should reach 279,000.

Our current estimate of households residing in the MSA is 107,300. Based on an estimated household growth rate of 2.2 percent in 2004 and 2.8 percent in 2005, the number of households should reach approximately 112,600 by the end of 2005.

HOUSING MARKET TRENDS AND CONDITONS

Residential Building Trends

The total number of single-family and multifamily units permitted in 2003 was down 4.2 percent from 2002's level of activity. Single-family units permitted in 2003 totaled 2,294, compared to 2,530 units in 2002, a 9.3 percent decrease. A total of 737 multifamily units were permitted in 2003, compared to 691 units in 2002, an increase of 6.7 percent. Approximately 220 of the multifamily units permitted in 2003 were rental units; the remaining units were constructed for owner occupants. Currently, an estimated 1,500 owner units, both single-family and multifamily, and about 100 multifamily rental units are under construction.

One multifamily rental project, Talons Pointe, was completed in May 2003 and one project, Waterford Gardens, is near completion. Talons Pointe is a 44 unit LIHTC project located in Estes Park. All units are restricted to households whose income are under 40, 50, and 60 percent of the area median income (AMI). Five of the three-bedroom units are subsidized with project-based Section 8. Talons Pointe has reached sustaining occupancy. Waterford Gardens, located in Loveland, is phase one of a two-phase project known as Waterford Place. There are 128 two and three-bedroom units in Waterford Gardens. Seventy-seven (77) of the units will be restricted to households whose income are under 50 percent of AMI and the remaining 51 units are market rate units. Leasing agents are presently taking inquiries from potential tenants. The footing and foundation permits have been issued by the City of Loveland for Phase II (166 income restricted units) of Waterford Place; however the final building permits have not been issued.

Currently under construction are two projects in Fort Collins. The Volunteers of America National Service (VOA) has started construction on 62 elderly subsidized units. These should be completed by mid-2004. A private developer has started construction on 36 market rate units located in central Fort Collins. The building permit for the 36 units was issued in May 2003. Two projects are in the planning stages of development. One project, located in Fort Collins, is proposing 106 market rate and 87 income restricted one and two-bedroom units. Another project, located in Loveland, is proposing 276 market rate units.

Home Sales Conditions

Historic low mortgage interest rates have kept the sales market stable even in the weak economy. Sales have remained steady over the past year even with the slight increase in mortgage interest rates. Also, the numerous down payment assistance programs being offered to help potential homebuyers, in most cases first time homebuyers, purchase a home with little or no money down have helped maintain the sales market.

The Colorado Association of REALTORS® reported that sales of single-family homes during 2003 totaled 2,740 in the Fort Collins market area and 1,617 in the Loveland/Berthoud market area, slightly less than the total sales in 2002 of 2,821 and 1,729, respectively. The median sales price for 2003 was \$221,347 in the Fort Collins market up from the 2002 median of \$214,900. The median sales price also increased slightly in the Loveland/Berthoud market from \$194,436 in 2002 to \$203,474 in 2003. By year-end 2003, sales in the Estes Park market totaled 218, compared to 183 in 2002 and the median sales price had increased from \$256,875 to \$271,875.

Rental Market Conditions

The modest rise in employment opportunities, which resulted in an easing of out-migration, has led to a slight decrease in rental vacancies over the past year. The Colorado Division of Housing (CDOH) reported a vacancy rate of 12.2 percent in the 3rd Quarter of 2003, an improvement over the all time high vacancy rate in the 1st Quarter 2003 of 16.1 percent. The rental market has remained very competitive and rent specials are prevalent, even with the moderate decrease in vacancy rates. In lieu of rent specials, some market rate properties have chosen to lower rents. Average rents, as reported by CDOH, have decreased from a high of \$753 in the 1st Quarter 2002 to \$722 in the 3rd Quarter 2003.

RENTER DEMAND FORECAST

Absorption of market rate units will pick up during 2004 and 2005 but the rental market will remain soft. There is a strong potential for a small surplus of market rate units to remain on the market by year-end 2005. Our present forecast anticipates recovery of the local rental market sometime in early-2006, indicating a need to postpone the start of new market rate units until early-2005. If there are changes in the market outlook such as a significant increase or decrease in employment or a substantive increase in mortgage interest rates, we will reevaluate and revise our estimates accordingly.

The current market for nonelderly LIHTC units is soft and new units will be added to the market during the coming year. The capture rates required to absorb the new units, while maintaining acceptable occupancy in existing LIHTC units, will be difficult to achieve. Two and three-bedroom units at the 60 percent level in the Fort Collins market already face high capture rates; in the Loveland market, absorption of the two and three-bedroom units scheduled to enter the market during the next several months at all income levels will require extremely high capture rates. Additional nonelderly LIHTC units in the Loveland market should be postponed until units under construction have reached sustaining occupancy. There is limited opportunity for one and two-bedroom nonelderly LIHTC units in the Fort Collins market at the 40 and 50 percent of median income level. However, additional nonelderly LIHTC units at any income level in the Fort Collins or Loveland markets should be approached with caution.

The present inventory of elderly LIHTC units all entered the market since January 2000. Even with these additions, the capture rates have remained at or below 10 percent for one and two-bedroom units at the 40 and 50 percent level. Occupancy has now stabilized at these projects. In view of the low capture rates for one and two-bedroom units at the 40 and 50 percent level, there is some potential to develop another modest-sized elderly project at these income levels.